

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**of**

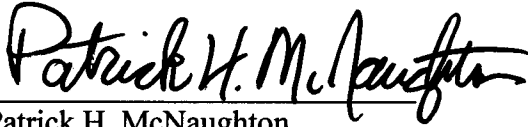
**Walla Walla College  
College Place, Washington**

**AS OF DECEMBER 31, 2003**

**Order No. G05-70  
Exhibit A**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Walla Walla College of College Place, Washington. This report shows the financial condition and related corporate matters of as of December 31, 2003.



Patrick H. McNaughton  
Chief Examiner

August 22, 2005  
Date

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**SALUTATION**

Seattle, Washington  
August 22, 2005

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building – Capitol Campus  
302-14<sup>th</sup> Avenue SW  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate affairs and financial records of

**Walla Walla College**

of

College Place, Washington

hereinafter referred to as “the College” at the location of its office, 508 South College Avenue, College Place, WA 99324.

This report of examination is respectfully submitted showing the condition of the College as of December 31, 2003.

## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 1999 through December 31, 2003. The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. We focused our review and testing on the College's management, operations, and reporting of the charitable gift annuity business as considered necessary to ascertain the financial condition of the organization and conformity with the related laws. These matters are discussed in this report. The examination was conducted at the College Place office of the College by examiners from the state of Washington.

The College records along with various aspects of the organization's operating procedures and financial reports were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the organization's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

## **INSTRUCTIONS**

The examiners reviewed the College's Annual Reports as part of the statutory examination. This review was performed to determine if the organization completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

### **1. Reporting Requirements**

The Annual Reports contained certain account balances that did not agree with the College's accounting records or were not prepared in accordance with the Annual Report Instructions:

- a. The balance sheet and statement of income and expenses sections of the 2003 Annual Report were not presented as of calendar year ending December 31; they were presented based on the College's fiscal year end June 30. The College did not obtain prior permission from the OIC to prepare the Annual Report on its fiscal year.
- b. The reported amounts for unrestricted, temporarily restricted and permanently restricted net assets disagreed due to misclassifications of balances between these accounts (2003) or inclusions of annuity liabilities in the net asset balances (2002, 2001, and 2000).

- c. The number of in-force contracts, reported in Charitable Gift Annuities Reserve Fund Activities (the Schedule), were consistently understated (1999 through 2003) because the reports did not include all in-force annuity contracts. Also, the Schedule for December 31, 2003 was incompletely prepared; the number of annuities for Washington State was not reported, as required, in the lower section of the Schedule. (See INSTRUCTION No. 3)

RCW 48.38.010 states that: "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, as well as such other financial material as may be requested, . . . ."

**To comply with RCW 48.38.010, the College is instructed to:**

- **Develop and implement a system for accounting and reporting of its charitable gift annuity business to ensure compliance with the principles or practices prescribed or permitted by Chapter 48.38 RCW; and**
- **Develop and implement procedures for appropriate review, by staff other than the report preparer, to ensure completeness and accuracy of the Annual Report.**

## **2. Charitable Gift Annuities Reserve Fund Activity**

The College did not properly and accurately report the actual total annuity assets. The assets of the separate reserve fund disclosed in Charitable Gift Annuities Reserve Fund Activity section of the 2003 Annual Report did not agree with the total investments reported in Portfolio Summary as of December 31, 2003. In addition, the total annuity asset balances reported in the Schedule and Portfolio Summary did not include the fund activities and balance of an annuitant whose contract was in-force as of December 31, 2003. The College, therefore, was not in compliance with RCW 48.38.010(10)(a) and RCW 48.38.020(1), (2)(b) and (4).

RCW 48.38.020(1), (2)(b) and (4) states that:

- (1) "Upon granting to such insurer or institution under RCW 48.38.010 a certificate of exemption to conduct a charitable gift annuity business, the insurance commissioner shall require it to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts."
- (2) "The assets of the separate reserve fund: (b) Shall be invested in the same manner that persons of reasonable prudence, discretion, and intelligence exercise in the management of a like enterprise, not in regard to speculating but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. Investments shall be of sufficient value,

liquidity, and diversity to assure the insurer or institution's ability to meet its obligations."

- (4) "The general assets of the insurer or institution holding a certificate of exemption under this chapter shall be liable for the payment of annuities to the extent that the separate reserve fund is inadequate."

**To comply with RCW 48.38.010 and RCW 48.38.020, the College is instructed to:**

- **Develop and implement a system for accounting, investing, and reporting of its charitable gift annuity business to ensure compliance with the principles or practices prescribed or permitted by Chapter 48.38 RCW; and**
- **Develop and implement procedures for appropriate review, by staff other than the report preparer, to ensure completeness and accuracy of the Annual Report.**

### **3. Annuity Reserves**

The 2003 annuity reserve amounts were understated because the reserves were based on an erroneous listing of in-force annuity contracts provided by the College to the actuary. The listing did not include six in-force contracts. Also, the listings of in-force annuity contracts used by the actuary in the calculations of annuity reserve amounts for the years 1999 through 2002 were incomplete; the listings did not include two annuity contracts. The College was not in compliance with RCW 48.38.010 and RCW 48.38.020. No examination adjustment was made due to the College's inability to supply an accurate actuarial report. (See INSTRUCTION No.1.c)

RCW 48.38.020 states that:

- (1) "Upon granting to such insurer or institution under RCW 48.38.010 a certificate of exemption to conduct a charitable gift annuity business, the insurance commissioner shall require it to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts."
- (3) "The amount of the separate reserve fund shall be:
  - (a) For contracts issued prior to July 1, 1998, not less than an amount computed in accordance with the standard of valuation based on the 1971 individual annuity mortality table with six percent interest for single premium immediate annuity contracts and four percent interest for all other individual annuity contracts;
  - (b) For contracts issued on or after July 1, 1998, in an amount not less than the aggregate reserve calculated according to the standards set forth in RCW 48.74.030 for other annuities with no cash settlement options;
  - (c) Plus a surplus of ten percent of the combined amounts under (a) and (b) of this subsection."

**The College is instructed, pursuant to Chapter 48.38 RCW, to correct its in-force contracts summary listing, send a copy of the correct listing to the actuary, and notify the actuary to use the new corrected listing in the calculations of the annuity**

**reserves. The College should develop a recording and monitoring system to ensure the in-force contracts listing is proper and complete, and that the annuities reserve amounts are accurate.**

### **COMMENTS AND RECOMMENDATIONS**

There were no comments or recommendations made in this examination report.

### **COMPANY PROFILE**

**History:** The College is a religious educational institution established in 1892 and is accredited by the Northwest Association of Schools and Colleges. The College is operated by the North Pacific Union Conference of Seventh-Day Adventists.

**Territory and Plan of Operation:** The primary purpose for which the College is formed is to establish, maintain, and conduct an educational institution of higher learning within the state of Washington as part of the system of educational institutions established and operated throughout the world by the Seventh-Day Adventist Church. The College derives the majority of its revenues from students for academic services and related student services. It also receives significant resources in the form of contributions, grants, and investment income.

The College was granted a Certificate of Exemption Number 120 to conduct a Charitable Gift Annuity business in the state of Washington by the OIC on August 6, 1998. Per the examination, there were twenty one (21) in-force annuity contracts as of December 31, 2003: seven (7) were issued to residents of the state of Washington, two (2) were issued to residents of the state of Oregon, and twelve (12) were issued to residents of the state of California.

**Total Net Assets:** The College's total of net assets as of December 31, 2003 were \$53,393,465. This amount included unrestricted net assets of \$35,187,410. The minimum unrestricted net asset requirement was satisfied as of December 31, 2003 pursuant to RCW 48.38.010(6).

**Growth of Company:** The growth of the College for the past five years is reflected in the following exhibits. All information was compiled from the College's financial statements as of fiscal years ending June 30. (Please note that this information is provided based on the College's fiscal year-end which is different than the examination as-of date.)



**Schedule 1**

<b><u>Fiscal</u></b>			<b><u>Total</u></b>	<b><u>Total Net Assets Allocated Into:</u></b>		
<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Net Assets</u></b>	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>
2003	\$63,499,596	\$12,846,443	\$50,653,153	\$38,977,040	\$1,509,154	\$10,166,959
2002	58,816,729	8,869,703	49,947,026	38,307,860	2,449,750	9,189,416
2001	58,137,334	8,255,496	49,881,838	36,474,259	4,606,939	8,800,640
2000	56,876,675	8,153,755	48,722,920	36,563,542	4,265,671	7,893,707
1999	53,915,976	8,334,811	45,581,165	34,998,913	3,573,066	7,009,186

**Schedule 2**

	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2001</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 1999</u></b>
Total revenues	\$36,019,675	\$33,773,413	\$33,605,040	\$33,109,154	\$30,297,682
Total expenses	35,313,548	33,708,225	32,446,122	29,967,399	27,553,592
Excess (deficit) of revenue over expenses	706,127	65,188	1,158,918	3,141,755	2,744,090
NA at beginning of year	49,947,026	49,881,838	48,722,920	45,581,165	42,837,075
Net assets at end of year	<b><u>\$50,653,153</u></b>	<b><u>\$49,947,026</u></b>	<b><u>\$49,881,838</u></b>	<b><u>\$48,722,920</u></b>	<b><u>\$45,581,165</u></b>
Number of gift annuity contracts at end of year	20	15	10	7	5

**AFFILIATED COMPANIES**

The College is affiliated with the Seventh-Day Adventist Church (SDA) and is related to the following organizations: General Conference of SDA and the Portland Adventist Medical Center. Transactions with related organizations were disclosed in the notes to financial statements.

**MANAGEMENT AND CONTROL**

**Ownership:** The College is incorporated under the Nonprofit Corporation Act of the state of Washington and is operated as a not-for-profit organization under the provisions of Section 501(c)(3) of the Internal Revenue Code. The College is not subject to federal income taxes except on unrelated business activities.

**Board of Trustees:** The primary role of the Board of Trustees is that of developer of institutional policy. A major responsibility of the Board is to develop financial support adequate for the operation and development of the College. The Board of Trustees was comprised of twenty-eight (28) members as of December 31, 2003:

Jere Patzer, Chair  
 Len Harms, Vice-Chair  
 Jon Dybdahl, Secretary  
 Tom Allen  
 Alex Betancourt

Yoswa Gwalamubisi  
 David Heusser  
 Alan Hurlbert  
 Norman Klam  
 Don Livesay

Gary Botimer  
Evelyn Connell  
Ken Crawford  
Larry Dodds  
Mumtaz Fargo  
John Freedman  
Wilfred Geschke  
Russell Gilbert  
Carmen Graham

John Loor, Jr.  
Dan Matthews  
Carolyn McHan  
Stephen McPherson  
Charles Nagele  
Bryce Pascoe  
Sue Smith  
Max Torkelsen II  
Carolyn Winchell

**Officers:** The officers of the College, appointed by the Board of Trustees, consist of a President, Secretary, and Treasurer.

**Conflict of Interest:** The College requires all its trustees, officers, and employees to disclose any conflict of interest by signing statements of acceptance. Such statements are made available to the responsible auditors. No exceptions were noted.

### **CORPORATE RECORDS**

The Board of Trustees meets at least four times a year to discuss that business which is pertinent to the College. Minutes of the meetings of trustees approve and support organization transactions and events. No exceptions were noted.

### **STATEMENT OF ACTUARIAL OPINION**

A consulting actuary with Milliman USA determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary acknowledges that he is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. His opinion indicates that the College's annuity contract reserves meet the requirements of RCW 48.38.020 of the Washington Insurance Code applicable to charitable gift annuities. (See INSTRUCTION No. 3)

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The assets of the separate reserve fund were held and physically segregated from the other assets of the College. However, the reported total annuity assets as of December 31, 2003 were inaccurate. (See INSTRUCTION No. 2)

## **SUBSEQUENT EVENTS**

There were no material events impacting the College between the examination date and the last day of our field work.

## **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation generally supported the data and amounts presented in the annual reports and financial statements. (See INSTRUCTION No.1)

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of the College as of December 31, 2003:

### **Balance Sheet**

	<b>Balance Per Annual Report</b>	<b>Adj. Notes</b>	<b>Examination Adjustments</b>	<b>Adjusted Balance</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$4,082,799		379,849	\$4,462,648
Investments	14,298,989		(2,495,616)	11,803,373
Other assets	45,117,808		(438,279)	44,679,529
<b>Total Assets</b>	<b>\$63,499,596</b>	Note 1	<b>(\$2,554,046)</b>	<b>\$60,945,550</b>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$2,335,161		(817,995)	\$1,517,166
Annuities payable	652,199		(5,542)	646,657
Other liabilities	9,859,083		(4,470,821)	5,388,262
<b>Total Liabilities</b>	<b>\$12,846,443</b>	Note 1	<b>(5,294,358)</b>	<b>\$7,552,085</b>
<b><u>NET ASSETS</u></b>				
Unrestricted	38,977,040		(3,789,630)	35,187,410
Temporarily restricted	1,509,154		7,671,614	9,180,768
Permanently restricted	10,166,959		(1,141,672)	9,025,287
<b>Total Net Assets</b>	<b>50,653,153</b>	Note 1	<b>2,740,312</b>	<b>53,393,465</b>
<b>Total Liabilities and Net Assets</b>	<b>\$63,499,596</b>		<b>(\$2,554,046)</b>	<b>\$60,945,550</b>

**Statement of Financial Activity and Changes in Net Assets (NA)**

	<b><u>Balance Per Annual Report</u></b>	<b><u>Adj. Notes</u></b>	<b><u>Examination Adjustments</u></b>	<b><u>Adjusted Balance</u></b>
Total revenues	\$36,093,884	Note 1	\$6,307,617	\$42,401,501
Total expenses	<u>(35,387,757)</u>	Note 1	<u>(10,294,825)</u>	<u>(45,682,582)</u>
Increase (decrease) in net assets	\$706,127	Note 1	(\$3,987,208)	(\$3,281,081)
Net assets at beginning of period	49,947,026	Note 2	5,141,979	55,089,005
Changes in net assets per examination		Note 2	1,585,541	1,585,541
Net assets at end of year	<u>\$50,653,153</u>		<u>\$2,740,312</u>	<u>\$53,393,465</u>

**Adjustment Notes:**

Note 1 – To adjust the data reported in Statement of Revenue and Expenses section of the Annual Report to agree with the College's accounting records as of December 31, 2003. Information reported in the Annual Report was based on the College's fiscal year-end balances. The College did not request or obtain permission for exemptions from the OIC to complete the Annual Report on a fiscal year basis. (See INSTRUCTION No. 1.a)

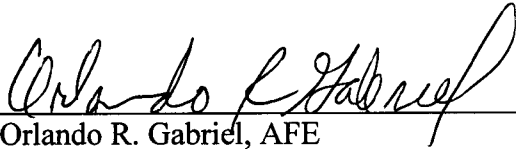
Note 2 – To recognize changes in net assets as a result of the above adjustments.

### **ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of the College during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Orlando R. Gabriel", is written over a horizontal line.


Orlando R. Gabriel, AFE  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

**STATE OF WASHINGTON        }**  
  }  
**COUNTY OF KING            }**

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of the College was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Orlando R. Gabriel, AFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me on this 22<sup>nd</sup> day of August, 2005.



Notary Public in and for the  
State of Washington,  
Residing at Seattle

